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Ukraine and World Bank Review the Country Economic Memorandum

On June 9-10 the World Bank and the Government of Ukraine held a joint review of the 1999 Country Economic Memorandum for Ukraine, which is a joint product of the World Bank, the Ministry of Economy, and the International Center for Policy Studies. International donors took an active part in the discussion.

The participatory approach in compiling this report

Preparing a country economic memorandum in this way represents a significant innovation for the Bank. WB economic reports are usually prepared largely by its staff and external consultants who visit the country for a few weeks, return to World Bank headquarters for several months to write the report, then, after clearance with management at headquarters, return to the field to discuss the report with the government for a few days before revising and issuing the report to the World Bank's Board of Executive Directors.

A different strategy, one involving extensive, open participation by Ukrainian government and experts, was chosen for this report primarily for two reasons—ownership and effectiveness.

Experience in Ukraine and elsewhere indicates that ownership of policy change is crucial for lasting results. Real reforms are voluntarily implemented on a sustained basis only when key decisionmakers "own" the reforms—when they understand why the reforms are needed and have played an active role in their design. Structural adjustment loans and other forms of policy-based lending may induce reforms under certain circumstances. But unless there is real ownership, the reforms will probably be implemented more in letter than in spirit and are unlikely to be sustained over the long term. Seeking the active participation of local counterparts—including key decisionmakers—throughout the months of preparation has helped this country economic memorandum build understanding and commitment.

This participatory process also enhanced the report's quality. Ukraine is richly endowed with well-educated professionals, both inside and outside government, who have been working for years on the economic problems of Ukraine. Many have not had the opportunity to develop a broad understanding of what works and does not work in other economic systems around the world, but they know the Ukrainian economic system in detail. The World Bank staff have benefited greatly from having daily access to the Ukrainian perspective on these issues while writing the report.

The participatory approach in practice

By combining the detailed professional knowledge of Ukrainian government and other experts with the global experience of external partners, we have been able to enrich understanding on both sides—enhancing the efficiency and effectiveness of designing policy options that are based on the best of world experience and tailored to Ukrainian realities.

This memorandum was prepared almost entirely in Ukraine. A supervisory board representing key government agencies was established under the leadership of the Minister of Economy, Mr. Vasyl Rohovyi. Working under the guidance of this board, nine local research teams were established, each of which prepared a report that was used not only as input for the memorandum, but also to support the government's own policy formulation. ICPS provided the organisational support for team work. Each team sought to involve a broad spectrum of expert opinion in preparing its report by holding inaugural, work-in-progress, and final dissemination seminars. These seminars involved well over 700 participants in total.

Each team also prepared a "policy readiness survey" designed to help understand what key policymakers and other opinion leaders believe to be the key obstacles to growth, the actions required to solve the problems, and the barriers that must be overcome before taking the necessary actions. The policy readiness survey, which elicited views from about 200 key individuals, will be the subject of a separate report.

Although the memorandum did not involve a single large mission of World Bank staff from Washington, experts from WB offices in Washington and Kyiv played a major role, working with the Ukrainian research groups and advising in person, by e-mail, and through videoconference. The bank's Knowledge Networks and Advisory Services were tapped to provide inputs to the work of the research teams and for the memorandum itself. It has also drawn on other free-standing reports that were prepared, both specifically for this country economic memorandum and for other purposes.

Next steps

All the formal background and free-standing reports developed as part of the country economic memorandum process will be made widely available. Plans are being developed for a CEM website. Once the report has been formally reviewed by the World Bank and by the government, a nationwide dissemination campaign will be launched to help people throughout Ukraine understand more fully why there is no viable alternative to accelerated structural reforms if Ukraine is to achieve the top national priority of markedly improved living standards.

For detailed information on the Centre's participation in preparing the country economic memorandum, please contact the ICPS experts on the "Country Economic Memorandum" project.
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Country Economic Memorandum coverage continues on next page

Ukraine will Restore Growth if it Speeds up Reform

The Country Economic Memorandum for Ukraine predits that if work on the full agenda of structural reforms is begun immediately, Ukraine could attain its target of doubling 1997 GDP by 2010.

If Ukraine pursues a competitive strategy, takes the crucial steps needed to avoid deficit spending, and implements essential structural reforms, it should be able to halt its economic decline and restore growth within 12-18 months. The timing and speed of this growth will depend on the speed and quality of the necessary reforms. These, in turn, will positively affect Ukraine's credibility as a destinaire for investment, and its ability to regain access to international capital markets.

If work on the full agenda of structural reforms is begun immediately (high case scenario), and if Ukraine completes most of the agenda within the next two or three years, it could attain its target of doubling 1997 per capita GDP by 2010.

If the pace of reform is somewhat less rapid but still much faster than it has been over the past nine years, annual growth rates of at least 3-4 percent could readily be attained (base case scenario). At this pace, attaining the target of doubling GDP would take longer, but Ukraine might well recover its previous living standards more rapidly than the raw numbers would indicate. Adjusting for the large share of military and other nonconsumable, nonproductive output in Soviet GDP and the widespread scarcity of consumer goods during the Soviet era, Ukraine could probably restore the real living standards of the late 1980s within 8-12 years.

In short, as bad as the 1990s have been for Ukrainians, the future is promising if the country implements policies similar to those which other countries have shown to be the most efficient means of maximizing growth; and if Ukraine can, at the same time, preserve social solidarity and equity by implementing job-oriented policies which are supported by an adequate social safety net.

The challenge now is to reach a national consensus on Ukraine's growth strategy for the future, then to implement it as swiftly as possible, before more time is lost and the process becomes even more difficult. Fundamental structural reforms will indeed involve some pain. But the pain of not reforming will be even greater.

Ukraine's only viable path to restoring past living standards is to create a vibrant, export-oriented, internationally competitive economy based on private sector initiative. To make this possible, Ukraine will need to undertake far-reaching changes in the role of government, restructure production sectors, improve the investment climate, and provide high-quality education, health, and social protection. With these changes in place, the future of Ukraine will indeed be bright.

High case scenario

	1997	1998	1999	2000	2001	2002-05	2006-10
Growth rate (percent)							
GDP	-3.0	-1.7	-1.0	3.0	4.0	7.8	8.7
Exports	0	-10.9	1.1	4.6	4.5	7.0	7.8
Imports	2.0	-12.5	-0.1	4.4	3.2	6.4	7.8
Prices (GDP deflator)	17.3	13.2	25.0	15.0	12.0	8.0	8.0
Percentage of GDP							
Current account balance	-2.7	-2.7	-2.3	-3.0	-3.3	-3.1	-2.8
Investment	21.4	20.7	21.3	22.3	23.8	25.2	27.9
Expenditure	43.6	41.6	42.1	37.0	35.1	30.9	27.5
Budget deficit	-5.6	-2.7	-1.1	0.3	0.8	0.8	0.2

Base case scenario

	1997	1998	1999	2000	2001	2002-05	2006-10
Growth rate (percent)							
GDP	-3.0	-1.7	-3.0	0.5	2.0	3.9	4.3
Exports	0.0	-10.9	-0.3	3.7	3.3	3.5	3.8
Imports	2.0	-12.5	-1.3	0.0	1.5	3.5	3.6
Prices (GDP deflator)	17.3	13.2	32.0	20.0	12.0	11.0	10.0
Percentage of GDP							
Current account balance	-2.7	-2.7	-2.3	-1.5	-1.6	-2.7	-3.1
Investment	21.4	20.7	20.8	21.1	21.9	23.2	24.2
Expenditure	43.6	41.6	42.5	41.7	40.8	37.7	31.8
Budget deficit	-5.6	-2.7	-1.6	-0.9	-0.8	-0.5	0.1

Low case scenario

	1997	1998	1999	2000	2001	2002-05	2006-10
Growth rate (percent)							
GDP	-3.0	-1.7	0.0	6.0	4.0	-0.9	-2.5
Exports	0.0	-10.9	-0.3	0.1	1.1	-2.4	-2.7
Imports	2.0	-12.5	-1.7	2.0	0.0	-3.5	-2.1
Prices (GDP deflator)	17.3	13.2	45.0	90.0	115.0	91.3	80.0
Percentage of GDP							
Current account balance	-2.7	-2.7	-3.5	-4.5	-4.8	-5.1	-7.0
Investment	21.4	20.7	22.9	24.8	27.0	26.2	24.7
Expenditure	43.6	41.6	43.4	45.6	45.9	46.4	41.7
Budget deficit	-5.6	-2.7	-2.5	-5.5	-6.6	-6.4	-4.6

Sources: Official Ukrainian data and World Bank estimates

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